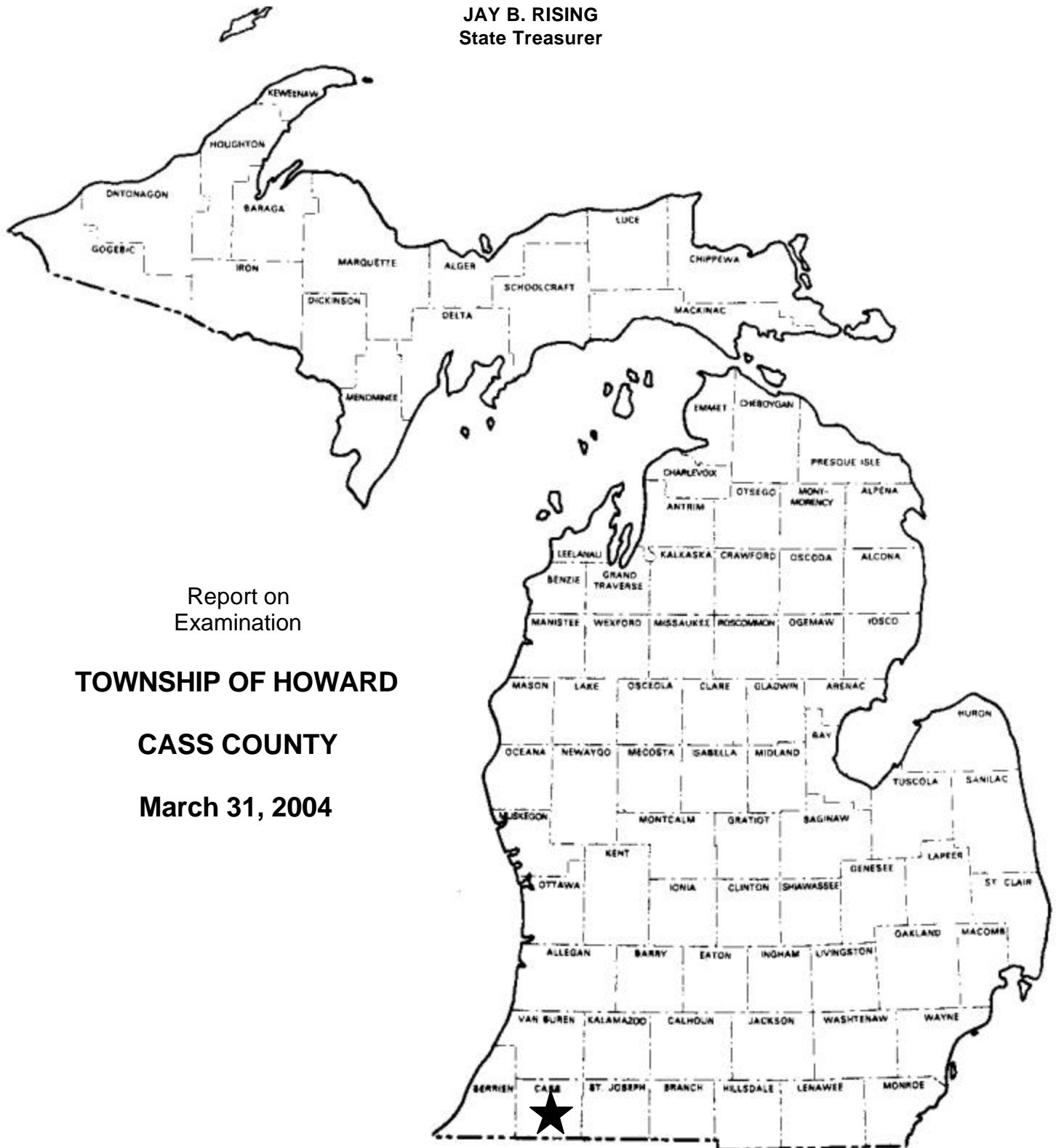


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

TOWNSHIP OF HOWARD

CASS COUNTY

March 31, 2004

Local Audit and Finance Division
Bureau of Local Government Services

HOWARD TOWNSHIP--CASS COUNTY

TOWNSHIP BOARD

Michael Sutherland
Supervisor

Shirley Tuttle
Clerk

Amy Archer
Treasurer

George Johnson
Trustee

Mike Gordon
Trustee

Mike Richmond
Trustee

Craig Bradfield
Trustee

TOWNSHIP POPULATION--2000
6,309

STATE EQUALIZED VALUATION--2003
\$35,223,553



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 20, 2004

Howard Township Board
1345 Barron Lake Road
Niles, Michigan 49120

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of Howard Township as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Howard Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howard Township as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2004 on our consideration of Howard Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Howard Township, taken as a whole. The accompanying supplemental and related information

in Exhibits F through K are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

HOWARD TOWNSHIP--CASS COUNTY

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**HOWARD TOWNSHIP--CASS COUNTY
COMBINED BALANCE SHEET--ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004**

EXHIBIT A

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE
	General Fund	Special Revenue	Capital Project	Enterprise Fund
			Water Distribution	
				Sewer
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 78,992	\$ 20,466		\$ 388,128
Investments	325,253	314,549	\$9,465	541,169
Delinquent Taxes Receivable	10,313	887		5,961
Special Assessments Receivable		22,178		475,737
Due From State	59,176			
Due From Other Units of Government				5,536
Due From Other Funds	12,490			
Prepaid Expenses	29,754			
Capital Assets (Net Where Applicable of Accumulated Depreciation)				1,380,000
Amount to be Provided to Retirement of General Long-Term Debt				
Total Assets	<u>\$515,978</u>	<u>\$358,080</u>	<u>\$9,465</u>	<u>\$2,796,531</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 18,990			
Accrued Wages Payable	9,758			
Due to Other Funds		\$ 887		
Due to County				
Due to Schools				
Due to State				
Due to Federal				
Due to Other Units of Government				
Deferred Revenue		22,178		
Notes Payable				
Bonds Payable				\$ 1,050,000
Total Liabilities	<u>28,748</u>	<u>23,065</u>	<u>\$ -</u>	<u>1,050,000</u>
Fund Equities				
Investment in Capital Assets				
Fund Balance				
Unreserved	487,230	335,015	9,465	
Retained Earnings				
Unreserved				1,746,531
Total Fund Equity	<u>487,230</u>	<u>335,015</u>	<u>9,465</u>	<u>1,746,531</u>
Total Liabilities and Fund Equity	<u>\$515,978</u>	<u>\$358,080</u>	<u>\$9,465</u>	<u>\$2,796,531</u>

The Notes to Financial Statements are an integral part of this statement.

HOWARD TOWNSHIP--CASS COUNTY
COMBINED BALANCE SHEET--ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004

EXHIBIT A
(CONTINUED)

	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
	Trust and Agency			
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 131,179			\$ 618,765
Investments				1,190,436
Delinquent Taxes Receivable				17,161
Special Assessments Receivable				497,915
Due From State				59,176
Due From Other Units of Government				5,536
Due From Other Funds				12,490
Prepaid Expenses				29,754
Capital Assets (Net Where Applicable of Accumulated Depreciation)		\$ 1,539,283		2,919,283
Amount to be Provided to Retirement of General Long-Term Debt			\$ 24,000	24,000
Total Assets	\$ 131,179	\$ 1,539,283	\$ 24,000	\$5,374,516
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable				\$ 18,990
Accrued Wages Payable				9,758
Due to Other Funds	\$ 11,603			12,490
Due to County	19,299			19,299
Due to Schools	63,875			63,875
Due to State	(117)			(117)
Due to Federal	1,373			1,373
Due to Other Units of Government	35,146			35,146
Deferred Revenue				22,178
Notes Payable			\$ 24,000	24,000
Bonds Payable				1,050,000
Total Liabilities	131,179	\$ -	24,000	1,256,992
Fund Equities				
Investment in Capital Assets		1,539,283		1,539,283
Fund Balance				
Unreserved				831,710
Retained Earnings				
Unreserved				1,746,531
Total Fund Equity	-	1,539,283	-	4,117,524
Total Liabilities and Fund Equity	\$ 131,179	\$ 1,539,283	\$ 24,000	\$5,374,516

The Notes to Financial Statements are an integral part of this statement.

**HOWARD TOWNSHIP--CASS COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended March 31, 2004**

EXHIBIT B

	General	Special Revenue	Capital Project Water Distribution	Total (Memorandum Only)
Revenues				
Taxes	\$154,830			\$154,830
Licenses and Permits	19,315	\$ 43,120		62,435
State Grants	450,647	1,014		451,661
Charges for Services	5,522			5,522
Fines and Forfeits	857			857
Interest and Rents	7,503	2,404	\$ 58	9,965
Other	3,167	12,893		16,060
Total Revenues	641,841	59,431	58	701,330
Expenditures				
Legislative	15,067			15,067
General Government	292,336			292,336
Public Safety	223,857	37,235		261,092
Public Works	96,231	5,684		101,915
Recreation and Cultural	43,716			43,716
Capital Outlay	65,723			65,723
Debt Service				
Principal		6,000		6,000
Interest		1,503		1,503
Total Expenditures	736,930	50,422	-	787,352
Excess Revenues Over (Under) Expenditures	(95,089)	9,009	58	(86,022)
Other Financing Sources (Uses)				
Operating Transfers In	135,000	91,565		226,565
Operating Transfers (Out)	(11,942)	(214,623)		(226,565)
Total Other Financing Sources (Uses)	123,058	(123,058)	-	-
Excess of Revenues Over (Under) Expenditures	27,969	(114,049)	58	(86,022)
Restatement to Fund Balance--April 1, 2003	64,529			
Restated Fund Balance--April 1, 2003	459,261	449,064	9,407	917,732
Fund Balance--March 31, 2004	\$487,230	\$ 335,015	\$ 9,465	\$831,710

The Notes to Financial Statements are an integral part of the statement.

**HOWARD TOWNSHIP--CASS COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended March 31, 2004**

EXHIBIT C

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 146,000	\$154,830	\$ 8,830	\$ 5,600	\$ 12,893	\$ 7,293
Licenses and Permits	24,500	19,315	(5,185)		43,120	
State Grants	500,000	450,647	(49,353)	1,100	1,014	(86)
Charges for Services	5,715	5,522	(193)			-
Fines and Forfeits	1,100	857				-
Interest and Rentals	11,700	7,503	(4,197)		2,404	2,404
Other Revenues	26,135	3,167	(22,968)			-
Total Revenue	715,150	641,841	(73,066)	6,700	59,431	9,611
Expenditures						
Legislative	17,543	15,067	2,476			
General Government	329,338	292,336	37,002			-
Public Safety	264,667	223,857	40,810	1,100	37,235	(36,135)
Public Works	95,530	96,231	(701)	5,684	5,684	-
Health and Welfare			-			-
Recreation and Cultural	49,945	43,716	6,229			-
Capital Outlay	65,723	65,723	-			
Debt Service						
Principal					6,000	(6,000)
Interest					1,503	(1,503)
Total Expenditures	822,746	736,930	85,816	6,784	50,422	(43,638)
Excess of Revenues Over (Under) Expenditures	(107,596)	(95,089)	12,750	(84)	9,009	(34,027)
Other Financing Sources (Uses)						
Operating Transfers In	135,000	135,000	-		91,565	91,565
Operating Transfers (Out)	-	(11,942)	(11,942)		(214,623)	214,623
Total Other Financing Sources (Uses)	135,000	123,058	(11,942)	-	(123,058)	306,188
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	27,404	27,969	808	(84)	(114,049)	272,161
Restatement to Fund Balance--April 1, 2003		64,529				
Restated Fund Balance--April 1, 2003	319,578	459,261	139,683		449,064	449,064
Fund Balance--March 31, 2004	\$346,982	\$487,230	\$140,491	\$ (84)	\$335,015	\$721,225

The Notes to Financial Statements are an integral part of this statement.

**HOWARD TOWNSHIP--CASS COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS--ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended March 31, 2004**

EXHIBIT D

	ENTERPRISE FUND
	<u>Sewer</u>
Operating Revenues	
Charge for Services	<u>\$ 72,281</u>
Total Operating Revenues	<u>72,281</u>
Operating Expenses	
Operating expenses	60,791
Depreciation	<u>34,500</u>
Total Operating Expenses	<u>95,291</u>
Net Operating Income (Loss)	<u>(23,010)</u>
Nonoperating Revenues (Expenses)	
Special Assessments	36,575
Interest Income	6,618
Interest Expense	<u>(63,600)</u>
Total Nonoperating Revenues (Expenses)	<u>(20,407)</u>
Net Income (Loss)	<u>(43,417)</u>
Retained Earnings--April 1, 2003	958,808
Restatement to Retained Earnings	<u>831,140</u>
Retained Earnings--April 1, 2003--Restated	<u>1,789,948</u>
Retained Earnings--March 31, 2004	<u><u>\$ 1,746,531</u></u>

The Notes to Financial Statements are an integral part of this statement.

**HOWARD TOWNSHIP--CASS COUNTY
STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended March 31, 2004**

EXHIBIT E

	Enterprise Funds
	<u>Sewer</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 71,209
Cash Payments to Suppliers for Goods and Services	<u>(60,791)</u>
Net Cash Provided by Operating Activities	<u>10,418</u>
Cash Flows From Noncapital Financing Activities	
Special Assessments	<u>104,388</u>
Net Cash Provided by Capital and Related Financing Activities	<u>104,388</u>
Cash Flows From Capital and Related Financing Activities	
Reduction of Long-Term Debt	(75,000)
Interest Paid on Capital Financing	<u>(63,600)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(138,600)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	7,564
Sale of Investments	<u>22,297</u>
Net Cash Provided by Investing Activities	<u>29,861</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,067
Cash and Cash Equivalents at Beginning of Year	<u>382,061</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 388,128</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (23,010)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	34,500
Decrease (Increase) in Accounts Receivable	<u>(1,072)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 10,418</u></u>

The Notes to Financial Statements are an integral part of this statement.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

Howard Township is located in Cass County and provides services to its residents in many areas including fire protection, community enrichment and development, and human services. Howard Township is a general law township governed by a seven-member board elected by the citizens of Howard Township. The township board consists of the supervisor, clerk, treasurer and four trustees.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

The following entities are not included in the township's financial statements but do represent an ongoing financial interest or responsibility:

JOINT VENTURE

Southwestern Michigan Community Ambulance Service--Howard Township, in conjunction with five other local units of government (City of Buchanan, City of Niles, Township of Buchanan, Township of Niles, and Township of Bertrand) have entered into an agreement to create the Southwestern Michigan Community Ambulance Service. The joint ambulance board is composed of six members, of which each unit appoints one member. The joint ambulance administrative board prepares an annual operating budget, which is approved by a simple majority and submitted to the participating municipalities for appropriation. If there is a deficit and the budget stabilization fund is exhausted, each participating municipality will be requested to make an additional voluntary contribution to make up the deficit. Howard Township's financial responsibility is to special assess, on an annual basis, \$10 for each parcel of property in the township. For the year ended March 31, 2004, the township's special assessment was \$28,030. A separate audit is conducted on the Southwestern Michigan Community Ambulance Service.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Howard Township conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accounts of the township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the township are recorded in separate funds and account groups categorized as follows:

GOVERNMENTAL FUNDS

The following funds were reallocated during the fiscal year as illustrated in the following table:

<u>Fund Name</u>	<u>Former Category</u>	<u>Current Category</u>
Tiara Trails	Debt Service	Special Revenue
Capital Acquisition	Capital Projects	Special Revenue
Improvement Capital	Capital Projects	Special Revenue
Sewer	Special Revenue	Enterprise (1)
Sewer	Debt Service	Enterprise (1)

General Fund

This fund is used to account for all financial transactions except those provided for in another fund. The fund includes the general operating expenditures of the township. Revenues are primarily derived from property taxes, State grants and permits.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Capital Project Fund

This fund is used to account for the acquisition or construction of major facilities other than those financed by proprietary fund operations.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust and Agency Funds

These funds are used to account for the assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and/or funds. These funds include a Trust and Agency Fund and the Current Tax Collection Fund.

ACCOUNT GROUPS

General Fixed Asset Account Group

This account group is used to account for the township's fixed assets other than those accounted for in proprietary or trust funds. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, are not capitalized.

General Long-Term Debt Account Group

This account presents the balance of general obligation long-term debt, which is not recorded in proprietary and trust funds.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Howard Township conform to generally accepted accounting principles as applicable to governmental units.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The governmental fund types use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due.

Proprietary Funds

The proprietary fund type (Enterprise Fund) is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting.

Howard Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Funds

The fiduciary funds are maintained on a cash basis, which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting it on the accrual or modified accrual basis as required by generally accepted accounting principles.

Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

Property Taxes

The township property tax is levied on each December 1st on the taxable valuation of property located in the township as of the preceding December 31st. It is the township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of township operations. Payment from the county for the 2003 delinquent taxes, which it purchased subsequent to March 31, is recorded as delinquent taxes receivable in the General Fund.

The 2003 taxable value of Howard Township amounted to \$131,896,835, on which ad valorem taxes of .7897 mills were levied for township operating purposes. The 2003 current tax levy raised \$104,159 for township operating and is recorded as revenue on township records in the General Fund for the fiscal year ended March 31, 2004.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General and Special Revenue Funds consist of uncollected real property taxes levied December 1, 2003, which have not been collected at March 31, 2004. The delinquent property taxes are as follows: General Fund, \$10,313; Street Lights, \$887; and Sewer, \$5,961.

Special Assessments

The special assessments receivable as of March 31, 2004, consist of \$22,178 for the Tiara Trails Fund (special revenue); \$887 for the Street Lights Fund; and \$475,737 for the Sewer Fund (proprietary fund). Each were created when the township and the residents in the applicable assessment districts agreed to the special assessments.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Tiara Trails Fund's special assessment receivable of \$22,178 is offset by deferred revenue.

Special assessments resulted in revenue to the township for Tiara Trails of \$7,209, Street Lights of \$5,684, and Sewer of \$36,575. These taxes are recorded as revenue on township records in and for the fiscal year of March 31, 2004.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

GENERAL FIXED ASSETS

Governmental Fund

Fixed asset purchases of the township's governmental funds are recorded as capital outlay expenditures at the time of purchase and are subsequently capitalized in the general fixed assets account group. No depreciation is recorded for these general fixed assets. Public domain "infrastructure assets," including roads, bridges, drains, curbs and gutters are not capitalized.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been calculated over the estimated useful life using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Total Memorandum Only

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

NOTE C--LEGAL COMPLIANCE

Budgets and Budgetary Accounting

Budgets are adopted by the township board for the General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The township board monitors and amends the budget as necessary. Unexpended appropriations lapse at year-end.

The budgeted revenues and expenditures for governmental fund types, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Excess of Expenditures over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the legislative body to adopt a General Appropriations Act for the budget of the General Fund and each Special Revenue Fund. The Act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The township's budget policy provides for the board to adopt and control the General Fund and Special Revenue Funds to the activity level. During the year ended March 31, 2004, expenditures were incurred in excess of amounts appropriated for in the following funds and activities.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Assessor	\$ 23,800	\$ 23,912	\$ (112)
Attorney	30,000	42,786	(12,786)
Public Works			
Street Lights	2,816	3,754	(938)
Other Financing Sources			
Transfers (Out)		11,942	(11,942)

During the year ended March 31, 2004, budgets were not adopted for all of Special Revenue Funds:

Tiara Trails
Liquor Law Enforcement
Street Light
Capital Acquisition
Improvement Capital
Building

Legal Noncompliance/Violation of Finance Related Provision

1. Failure to establish or maintain the Uniform Chart of Accounts in a formal accounting system in accordance with PA 2 of 1968, as amended, (MCL 141.421).
2. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a).
3. Failure to adopt an investment policy in accordance with PA 20 of 1943, as amended, (MCL 129.95).
4. Failure to adopt an ACH (Automated Clearing House) policy in accordance with Pubilc Act 738 of 2002 (MCL 124.303).

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The township does not invest funds and has not adopted an investment policy in accordance with Public Act 196 of 1997. The township's deposits are in accordance with statutory authority. The township board has designated two banks for the deposit of township funds.

Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the township's cash deposits are as follows:

<u>Imprest Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Institution Balances</u>
Operating Fund		
Uninsured	\$ 418,265	\$ 1,412,424
Insured (FDIC)	200,000	200,000
Imprest Cash	<u>500</u>	<u></u>
Total Operating Fund	<u>\$ 618,765</u>	<u>\$ 1,612,424</u>

In accordance with GASB Statement No. 3, investments are classified into three categories of credit risk as follows:

<u>Investments</u>	<u>Carrying Amount</u>	<u>Market Amount</u>
Nonrisk-Categorized Investments		
Government Pooled Funds		
Money Market Investments (LUG)	<u>\$ 1,190,436</u>	<u>\$ 1,190,436</u>
Total Nonrisk-Categorized Investments	<u>1,190,436</u>	<u>1,190,436</u>
Total Cash and Investments	<u>\$ 1,809,201</u>	<u>\$ 2,802,860</u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

A summary of changes in general capital assets follows:

	Account Balances 03/31/2003	Additions	Deductions	Account Balances 03/31/2004
Fixed Asset Accounts				
Land	\$ 88,350			\$ 88,350
Land Improvements	100,857			100,857
Buildings and Building Improvements	254,827			254,827
Equipment	523,020	\$65,723	\$ 11,880	576,863
Vehicles	518,386			518,386
Total	<u>\$ 1,485,440</u>	<u>\$65,723</u>	<u>\$ 11,880</u>	<u>\$1,539,283</u>

In the past, the township has not had a capital asset listing to verify amounts recorded. In 2003, the township prepared a fixed asset listing increasing Land by \$28,600, increasing Land Improvements by \$100,857, decreasing Building and Building Improvements by \$256,980, decreasing Equipment by \$80,397 and reducing Vehicles by \$44,809 for a net decrease of \$252,729 to the capital assets.

A summary of proprietary fund type capital assets as of March 31, 2004 follows:

	Sewer Fund
Sewer System	\$1,725,000
Less: Accumulated Depreciation	<u>(345,000)</u>
Net Capital Assets	<u>\$1,380,000</u>

Depreciation for the year totaled \$34,500.

See Note M for a change in accounting principle related to the Sewer Fund's capital assets.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--INTERFUND RECEIVABLES AND PAYABLES

The amounts of the interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 12,490	Street Light	\$ 887
		Trust and Agency	5,668
		Tax Collection	5,935
Total	<u>\$ 12,490</u>		<u>\$12,490</u>

NOTE G--TRANSFERS IN AND TRANSFERS (OUT)

The 2004 operating transfers from Exhibits B and C can be summarized as follows:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
General	\$ 135,000	Improvement Capital	\$135,000
Improvement Capital	79,623	Capital Acquisition	79,623
Building	11,942	General	11,942
Totals	<u>\$ 226,565</u>		<u>\$226,565</u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of Howard Township, and the changes therein, may be summarized as follows:

	Balance 04/01/03	Additions (Reductions)	Balance 03/31/04
Enterprise Fund			
Howard Township Sewer Fund			
Contractual Bonds, issued by Cass County through Munipal Bond Investors Assurance Corporation (MBIA), \$1,725,000 maturing serially through 2014 in amounts ranging from \$25,000 to \$100,000, and at an interest rate of 6.0%.	\$ 1,125,000	\$(75,000)	\$ 1,050,000
Total Enterprise Fund	<u>\$1,125,000</u>	<u>\$(75,000)</u>	<u>\$ 1,050,000</u>
<u>General Long-Term Debt Account Group</u>			
Howard Township promissory note for an installment purchase agreement for equipment, \$60,000, maturing serially through 2008 in annual installments of \$6,000 and at an interest rate of 5.0%.	\$ 30,000	\$ (6,000)	\$ 24,000
Total General Long-Term Debt Account Group	<u>\$ 30,000</u>	<u>\$ (6,000)</u>	<u>\$ 24,000</u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Long-Term Debt--Enterprise Fund (Sewer Fund)

The annual Sewer Fund principal and interest required through maturity for the bonds payable outstanding as of March 31, 2004, is as follows:

Date of Issue: July 6, 1994

Amount: \$1,725,000

Purpose: Sewer Bonds

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity December 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
6.0%	2004	\$ 75,000	\$ 63,000	\$ 138,000
	2005	75,000	58,500	133,500
	2006	100,000	54,000	154,000
	2007	100,000	48,000	148,000
	2008	100,000	42,000	142,000
Thereafter	2009-2014	<u>600,000</u>	<u>126,000</u>	<u>726,000</u>
		<u>\$1,050,000</u>	<u>\$391,500</u>	<u>\$ 1,441,500</u>

The annual interest and principal requirements of Howard Township's long-term borrowing is summarized as follows:

Date of Issue: October 27, 1998

Amount: \$60,000

Purpose: Tiara Trails Paving Project

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity March 15</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.00%	2005	\$ 6,000	\$ 1,200	\$ 7,200
	2006	6,000	900	6,900
	2007	6,000	600	6,600
	2008	<u>6,000</u>	<u>300</u>	<u>6,300</u>
Total		<u>\$24,000</u>	<u>\$ 3,000</u>	<u>\$27,000</u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEE PENSION PLAN

Description of Plan and Plan Assets

As of April 1, 2002, Howard Township participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. MERS provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. There is one group of employees classified as general. The service requirement for general employees is computed using credited service at the time of termination of membership multiplied by the sum of 1.5% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Howard Township Board which requires members to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. During 2003, the employees contributions totaled \$0. The township is required to contribute at an actuarially determined rate which was 9.95% of the annual payroll based on the 2001 actuarial valuation beginning on January 1, 2003.

Annual Pension Cost

During the calendar year ended December 31, 2003, the township's contributions were \$9,543 in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001. The township paid the required contribution. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members' retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEE PENSION PLAN (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	N/A	N/A	N/A
2002	N/A	N/A	N/A
2003	\$9,543	100%	0

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Overfunded (Unfunded) AAL (UAAL) (1)-(2)</u>	<u>Funded Ratio (1)/(2)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
2001	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A	N/A
2003	\$12,241	\$9,181	\$3,060	133%	\$38,748	0%

NOTE J--RISK MANAGEMENT

Howard Township is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The township participates in the Michigan Townships' Participating Plan for the following various policies: general liability, property, vehicle and fire. The township has insurance with the Accident Fund Company for workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The township maintains an enterprise fund that provides sewer services. Segment information for the year ended March 31, 2004 was as follows:

	<u>Sewer</u>
Operating Revenues	\$ 72,281
Operating Income (Loss)	(23,010)
Net Income (Loss)	(43,417)
Land, Buildings, and Equipment	
Depreciation Expense	34,500
Net Working Capital	1,416,531
Long-Term Debt	1,050,000
Total Assets	2,796,531
Total Equity	1,746,531

NOTE L--RESTATEMENT OF FUND BALANCE

Numbered Letter No. 1997-1 issued by the Michigan Department of Treasury requires local units of government with March 31 year ends to accrue the April distribution of the state revenue sharing. A restatement of fund balance was necessary to remove the April 2003 state revenue sharing that was recognized during 2003/2004 and apply it to 2002/2003. Also, the township has \$500 listed as imprest cash not recorded on the records of the township. Listed below is the effect on the fund balances at March 31, 2003:

	<u>General Fund</u>
Audited Fund Balance--March 31, 2003	\$394,732
Record April 2003 State Revenue Sharing Distribution	64,029
Unrecorded Imprest Cash	500
Total Adjustments to Beginning Fund Balance	<u>64,529</u>
Adjusted Beginning Fund Balance--March 31, 2003	<u><u>\$459,261</u></u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

The Sewer Fund has been reclassified into one enterprise fund. The Sewer Fund previously consisted of a special revenue fund and a debt service fund. The change in accounting principle for recording the Sewer Fund from the modified accrual basis to the full accrual basis occurred when it was determined that the township owned the sewer system built within the township, was responsible for maintaining the sewer system, and likewise responsible for setting the amount to collect to maintain the sewer system. Due to this change in accounting principle, the Sewer Fund will now have a retained earnings balance instead of fund balance. The new Sewer Fund will also include fixed assets net of accumulated depreciation, bonds payable, and special assessments receivable that are no longer offset by deferred revenue.

The effect of this change in accounting principle was to increase beginning retained earnings for the Sewer Fund as follows:

Retained Earnings, March 31, 2003	\$ 958,808
Accounting Changes	
Capital Assets (Net of	
Accumulated Depreciation)	1,414,500
Deferred Revenue for	
Special Assessments	541,640
Bonds Payable	<u>(1,125,000)</u>
Restated Retained Earnings	
March 31, 2003	<u><u>\$ 1,789,948</u></u>

HOWARD TOWNSHIP--CASS COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING
USES--BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended March 31, 2004

EXHIBIT F

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
Current Property Taxes	\$ 96,000	\$ 95,775	\$ (225)
Delinquent Property Taxes	7,500	10,313	2,813
Delinquent Personal Property Taxes	5,200	6,959	1,759
Trailer Park Taxes	1,000	984	(16)
Penalties/Interest	3,100	3,045	(55)
Administration Fees	33,200	37,754	4,554
Total Taxes and Penalties	146,000	154,830	8,830
Licenses and Permits			
Junk Permits	100	100	-
Dog Licenses	400	257	(143)
Land Variances	5,000	1,800	(3,200)
Land Permits	3,000	2,200	(800)
Cable Franchise Fees	16,000	14,958	(1,042)
Total Licenses and Permits	24,500	19,315	(5,185)
State Grants			
State Revenue Sharing	500,000	450,647	(49,353)
Total State Grants	500,000	450,647	(49,353)
Charges For Services			
Mowing	3,200	2,905	(295)
Fire Runs	1,100	1,202	102
Other Charges for Services	1,415	1,415	-
Total Charges for Services	5,715	5,522	(193)
Fines and Forfeits			
Ordinance Fines	100	32	(68)
Enforcement Fines	1,000	825	(175)
Total Fines and Forfeits	1,100	857	(243)
Interest and Rents			
Interest Earned	6,100	2,103	(3,997)
Hall Rental	3,500	3,450	(50)
Park Rental	2,100	1,950	(150)
Total Interest and Rents	11,700	7,503	(4,197)
Other Revenues			
Refunds and Reimbursements	26,135	3,167	(22,968)
Total Other Revenues	26,135	3,167	(22,968)
Total Revenues	715,150	641,841	(73,066)
Other Financing Sources			
Operating Transfers In	135,000	135,000	-
Total Other Financing Sources	135,000	135,000	-
Total Revenues and Other Financing Sources	\$ 850,150	\$ 776,841	\$ (73,309)

HOWARD TOWNSHIP--CASS COUNTY
STATEMENT OF EXPENDITURES AND OTHER FINANCING
USES--BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended March 31, 2004

EXHIBIT G

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Township	\$ 17,543	\$ 15,067	\$ 2,476
Total Legislative	17,543	15,067	2,476
General Government			
Supervisor	31,853	28,516	3,337
Elections	10,250	8,110	2,140
Audit	15,440	15,065	375
Assessor	23,800	23,912	(112)
Attorney	30,000	42,786	(12,786)
Clerk	53,069	49,106	3,963
Board of Review	2,058	775	1,283
Treasurer	48,221	28,443	19,778
Building and Grounds	81,475	62,451	19,024
General Government Insurance	33,172	33,172	-
Total General Government	329,338	292,336	37,002
Public Safety			
Police Services	155,900	138,452	17,448
Fire Department	82,644	61,939	20,705
Zoning/Ordinance Enforcement	11,951	9,608	2,343
Zoning Administrator	10,926	10,744	182
Zoning Board of Appeals	3,246	3,114	132
Total Public Safety	264,667	223,857	40,810
Public Works			
Roads	89,414	89,177	237
Street Lights	2,816	3,754	(938)
Garbage Collection	3,300	3,300	-
Total Public Works	95,530	96,231	(701)
Recreational and Cultural			
Parks	44,745	42,129	2,616
Community Promotion	5,200	1,587	3,613
Total Recreational and Cultural	49,945	43,716	6,229
Capital Outlay	65,723	65,723	-
Total Expenditures	822,746	736,930	85,816
Other Financing Sources (Uses)			
Operating Transfers (Out)	-	11,942	(11,942)
Total Other Financing Sources (Uses)	-	11,942	(11,942)
Total Expenditures and Other Financing Sources	\$ 822,746	\$ 748,872	\$ 73,874

**HOWARD TOWNSHIP--CASS COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
March 31, 2004**

EXHIBIT H

	Tiara Trails	Liquor Law	Capital Acquisition	Improvement Capital	Street Lights	Building	Total
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 1,625					\$18,841	\$ 20,466
Investments	2,150			\$ 312,399			314,549
Delinquent Taxes Receivable					\$ 887		887
Special Assessments Receivable	22,178						22,178
Total Assets	\$25,953	\$ -	\$ -	\$ 312,399	\$ 887	\$18,841	\$ 358,080
<u>LIABILITIES AND FUND EQUITY</u>							
Liabilities							
Due to Other Funds					\$ 887		\$ 887
Deferred Revenue	\$22,178						22,178
Total Liabilities	22,178	\$ -	\$ -	\$ -	887	\$ -	23,065
Fund Balances							
Unreserved	3,775			312,399	-	18,841	335,015
Total Liabilities and Fund Balance	\$25,953	\$ -	\$ -	\$ 312,399	\$ 887	\$18,841	\$ 358,080

HOWARD TOWNSHIP--CASS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS
For the Fiscal Year Ended March 31, 2004

EXHIBIT I

	Tiara Trails	Liquor Law	Capital Acquisition	Improvement Capital	Street Lights	Building	Total
Revenues							
Licenses and Permits						\$ 43,120	\$ 43,120
State Grants		\$1,014					1,014
Interest and Rents	\$ 19		\$ 282	\$ 2,103			2,404
Other Revenue	7,209				\$ 5,684		12,893
Total Revenues	7,228	1,014	282	2,103	5,684	43,120	59,431
Expenditures							
Public Safety		1,014				36,221	37,235
Public Works					5,684		5,684
Debt Service							
Principal	6,000						6,000
Interest	1,503						1,503
Total Expenditures	7,503	1,014	-	-	5,684	36,221	50,422
Excess of Revenues Over (Under) Expenditures	(275)	-	282	2,103	-	6,899	9,009
Other Financing Sources (Uses)							
Operating Transfers In				79,623		11,942	91,565
Operating Transfers (Out)			(79,623)	(135,000)			(214,623)
Total Other Financing Sources (Uses)	-	-	(79,623)	(55,377)	-	11,942	(123,058)
Excess of Revenues Over (Under) Expenditures	(275)	-	(79,341)	(53,274)	-	18,841	(114,049)
Fund Balance--April 1, 2003	4,050		79,341	365,673		-	449,064
Fund Balance--March 31, 2004	\$ 3,775	\$ -	\$ -	\$ 312,399	\$ -	\$ 18,841	\$ 335,015

**HOWARD TOWNSHIP--CASS COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
March 31, 2004**

EXHIBIT J

	AGENCY FUNDS		
	<u>Trust and Agency</u>	<u>Current Tax Collection</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 84,547	\$ 46,632	\$ 131,179
Total Assets	<u>\$ 84,547</u>	<u>\$ 46,632</u>	<u>\$ 131,179</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Due to Other Funds	\$ 5,668	\$ 5,935	\$ 11,603
Due to County	10,387	8,912	19,299
Due to Schools	35,422	28,453	63,875
Due to State	(117)		(117)
Due to Federal	1,373		1,373
Due to Other Units of Government	31,814	3,332	35,146
Total Liabilities	<u>\$ 84,547</u>	<u>\$ 46,632</u>	<u>\$ 131,179</u>

**HOWARD TOWNSHIP--CASS COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES--ALL AGENCY FUNDS
For the Year Ended March 31, 2004**

EXHIBIT K

	Balance 04/01/03	Additions	Deductions	Balance 03/31/04
<u>TRUST AND AGENCY FUND</u>				
Assets				
Cash	\$ 2,774	\$ 185,228	\$ 103,455	\$ 84,547
Total Assets	\$ 2,774	\$ 185,228	\$ 103,455	\$ 84,547
Liabilities				
Due to Other Funds	\$ 115	\$ 9,775	\$ 4,222	\$ 5,668
Due to County	575	31,252	21,440	10,387
Due to Schools	-	63,872	28,450	35,422
Due to State of Michigan	-	6,422	6,539	(117)
Due to Federal	-	41,649	40,276	1,373
Due to Other Units of Government	2,084	32,259	2,529	31,814
Total Liabilities	\$ 2,774	\$ 185,229	\$ 103,456	\$ 84,547
<u>TAX COLLECTION FUND</u>				
Assets				
Cash	\$ 5,543	\$3,116,505	\$3,075,416	\$ 46,632
Total Assets	\$ 5,543	\$3,116,505	\$3,075,416	\$ 46,632
Liabilities				
Due to Other Funds	\$ 2,211	\$ 226,021	\$ 222,297	\$ 5,935
Due to County		1,428,675	1,419,763	8,912
Due to Schools	3,332	1,431,558	1,406,437	28,453
Tax Overpayments		5,571	2,239	3,332
Due to Other Units of Government		24,680	24,680	-
Total Liabilities	\$ 5,543	\$3,116,505	\$3,075,416	\$ 46,632



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 20, 2004

Howard Township Board
1345 Barron Lake Road
Niles, Michigan 49120

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of Howard Township as of and for the year ended March 31, 2004, and have issued our report thereon dated July 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Howard Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance listed in the accompanying comments and recommendations section of this report, which we have reported to management.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Howard Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Howard Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information of management and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Howard Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

MATERIAL WEAKNESSES

Treasurer--Use of Generic Receipts

Condition: While the township's official receipts are pre-numbered, the township used generic store bought receipts through May 2003. These receipts do not contain the township's name and are not sequentially numbered.

Criteria: According to the Uniform Accounting Procedures Manual, the use of dime-store (generic) receipts is strictly prohibited. Receipts are to be numerically controlled (printer pre-numbered) three part official receipts with the name of the local unit printed on the receipt and must be issued for all revenues.

Recommendation: Beginning in June 2003, the township began using receipts that met the criteria listed above and we recommend that the township continue to use these receipts.

Treasurer--Preparation of Receipts

Condition: The township does not include the method of payment or account classification on its receipts.

Criteria: The Uniform Accounting Procedures Manual issued by the State of Michigan Department of Treasury states that receipts should contain "cash" or "check" as the method of payment and the receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.

Recommendation: We recommend the township begin including the method of payment and account numbers on all receipts.

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Clerk, Treasurer--Posting to Miscellaneous Revenue

Condition: The township currently posts appropriations from other funds, charges for copies and other services, and the reimbursement from the Sewer Fund to the miscellaneous revenue line-item.

Criteria: The Uniform Chart of Accounts issued by the Michigan Department of Treasury defines miscellaneous revenue as revenue that cannot be classified into any other account.

Recommendation: We recommend that the township discontinue its broad use of miscellaneous revenue and begin accounting for charges for services in accounts 600-654, transfer in as account 699, and reimbursements from the Sewer Fund should be expenditure credits to the expense line-item originally charged as prescribed by the Uniform Chart of Accounts.

Treasurer--Receipting into Petty Cash

Condition: The township currently receipts in all charges for copies and maps into its petty cash.

Criteria: Petty cash is used to record a sum of money either in the form of currency set aside for the purpose of making change or paying incidental expenses. It is not for the receipting of revenue.

Recommendation: We recommend that the township begin receipting the charges for copies and maps using its General Fund receipts as it does with all other township General Fund revenue.

Clerk, Treasurer--Posting of Cash and Investment Balances

Condition: While the total cash of the township is reconciled to the township bank accounts, the amounts posted to the general ledger are not properly itemized between the cash and investment account balances.

Criteria: According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, the balance of cash accounts should be posted to account 001 and investments in securities should be posted to account 017. Bank reconciliations are to reconcile with each of these accounts and not to balance of the accounts as a whole.

Recommendation: We recommend that the township begin reconciling the cash and investment accounts to each individual account posted in the township's general ledger.

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Clerk--Account Numbers are not Written on the Copies of Checks

Condition: Some invoices prepared by the township do not contain any administrative approval nor did they contain an account classification. Various disbursements made by the township to vendors were not supported by invoices.

Criteria: According to the Uniform Accounting Procedures Manual, appropriate documentation (supporting invoices) must be attached for all disbursements. Invoices should provide evidence that the proper individual has reviewed them and must indicate the account classification.

Recommendation: We recommend that the person reviewing the invoices provide evidence that the invoice has been reviewed and indicate the account classification on the invoice.

Treasurer--Accruals

Condition: Accruals (accounts receivable) were not recorded for the Enterprise Fund or any of the governmental funds.

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

Modified Accrual Basis of Accounting: Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Recommendation: We recommend that the township record accruals. The accrual balances should be reconciled to subsidiary records to support the balances in the respective accounts.

Clerk--Capital Assets

Condition: The township does not maintain adequate internal controls for capital assets.

Criteria: It is the responsibility of the township to update a capital asset listing for additions and deletions. Assets purchased during the year that are recorded as capital outlay should equal the additions to the capital asset records; and disposals should equal the reductions to the capital asset records. Local units must consider if a gain or loss has occurred when selling capital assets. The amount is recorded in the general ledger.

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the township develop a property management system that includes the following steps:

1. Capital assets that meet the township's capitalization policy should be included on the capital asset listing and be listed as capital outlay on the general ledger of the township.
2. Capital outlay/assets that are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as expenditures.
3. A listing of disposed of capital assets must be maintained for each fiscal year.

Clerk--Posting to Building and Grounds Expense

Condition: The township currently posts part of the deputy clerk, deputy treasurer, deputy assistant, and the administrative assistant salary along with related withholdings and fringes to the building and grounds activity. The township also posts attorney fees, trash days, audit and accounting fees, and capital outlay to the building and grounds activity.

Criteria: The Uniform Chart of Accounts issued by the Michigan Department of Treasury defines the building and grounds activity to reflect the expenses as building maintenance, grounds maintenance, janitor service, fuel, utilities, etc., for a county courthouse, city, village or township hall, or other municipal finance buildings.

Recommendation: We recommend that the township discontinue its broad use of the building and grounds activity and begin accounting for the expenses in the activities classification prescribed by the Uniform Chart of Accounts.

Clerk--Water Fund

Condition: The township currently has a capital project fund called the Water Fund numbered as Fund 451. This fund no longer has a purpose for the township and the only activity of the fund is the interest earned from the savings account and certificate of deposit.

Criteria: According to the National Council of Governmental Accounting (NCGA), Statement No. 1, Paragraph 4, governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Recommendation: We recommend that the township close out this fund and transfer the remaining cash balance to the General Fund. Any funds transferred to a public improvement fund are required to remain in the fund until expended on public improvements.

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Township Board--Illegal Expenses

Condition: In December, the township purchased gift certificates as a Christmas gift for township employees. The township also provides a Christmas bonus to its full-time employees. The amount provided is based on years of service.

Criteria: According to Attorney General Opinion No. 2346 of 1956, there is no statutory provision authorizing townships (or local units of government) to make expenditures from public funds for the private purpose of purchasing Christmas gifts. In addition to the lack of statutory authority, the expenditure of public funds for such a purpose is unlawful in principle. There can be no furtherance of the general public welfare of the township or its citizens in the expenditure of money of public funds for gifts for private occasions, however worthy the motive of the giver.

Also, According to the Attorney General's Opinion 1431, "Neither the legislature nor any political subdivision of this state shall grant or authorize extra compensation to any public officer, agent or contractor after the service has been rendered or the contract entered into." In the case of the township, the contract is the personnel policy.

Recommendation: We recommend that the township discontinue the practice of providing Christmas gifts and bonuses using the township's funds.

Township Board--Special Revenue Fund Budget Adoption

Condition: Budgets were not adopted for the Tiara Trails Fund, Liquor Law Enforcement Fund, Street Light Fund, Capital Acquisition Fund, Improvement Capital Fund, and Building Fund.

Criteria: MCL 141.436 states: "The legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, intragovernmental service, enterprise, public improvement or building and site, for which the legislative body may pass a special appropriation act."

Recommendation: We recommend budgets for all required funds be adopted prior to the start of the new fiscal year. The budget should include all items required by law and Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Township Board--Expenditures in Excess of Appropriations

Condition: Our examination of procedures used by the township to adopt and maintain operating budgets for the township's budgetary funds revealed the following instances of noncompliance with provisions of Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

The township's 2003/2004 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the activity level by the township. During the fiscal year ended March 31, 2004, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Assessor	\$ 23,800	\$ 23,912	\$ (112)
Attorney	30,000	42,786	(12,786)
Public Works			
Street Lights	2,816	3,754	(938)
Other Financing Sources			
Transfers (Out)		11,942	(11,942)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the township develop budgetary control procedures for the General Fund which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Treasurer--Failure to Distribute Taxes in a Timely Manner

Condition: The delinquent property taxes collected are not distributed to other units in a timely manner. Some distributions are still yet to be made.

Criteria: Section 43(3) of the General Property Tax Act, Public Act 206 of 1893, as amended, requires the distribution of taxes within 10 business days after the first and fifteenth day of each month.

Recommendation: We recommend that the treasurer distribute all property taxes within the time frame stipulated by law.

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Clerk--Uniform Chart of Accounts

Condition: The township records the special assessment for streetlights and the State grant for liquor law enforcement in the General Fund.

Criteria: According to MCL 41.110a, the township is to establish a chart of accounts in compliance with the Uniform Chart of Accounts issued by the Michigan Department of Treasury. According to the Uniform Chart of Accounts, Fund 212 - Liquor Law Enforcement Fund is to be used by townships which do NOT have a full time police or enforcement department to account for the distribution of State liquor law enforcement money for enforcing the Liquor Control Act. Fund 219 – Street Lighting Fund is required to account for a tax levy or special assessment for the purpose of providing street lighting authorized by a vote of the electors of the local unit of government.

Recommendation: We recommend that the township establish the funds listed above to comply with State statutes and the Uniform Chart of Accounts.

Clerk--Uniform Chart of Accounts

Condition: The majority of the fund and activity numbers used by the township do not conform to the Uniform Chart of Accounts as listed below. In some cases, the name of the fund does not comply either.

	<u>Township Fund No.</u>	<u>Uniform Chart of Accounts Fund No.</u>	<u>Proper Name if Different</u>
Improvement Capital	700	245	Public Improvement
Building Department	750	249	Building Inspection
Tiara Trails	651	204	
Sewer	501 & 551	590	
Trust and Agency	201	701	
Tax Collection	251	703	Current Tax Collection

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

	<u>Township Account No.</u>	<u>Uniform Chart of Accounts Account No.</u>
Audit and Accounting Activities	265	202
Attorney	265	210
Board of Review	209	247
Ordinance Enforcement	180	333
Zoning	805	410
Zoning Board of Appeals	806	411
Garbage Collection	265	528
Road Projects	900	446
Street Lights	900	448
Park Department	691	751
Community Promotion	900	793
Capital Outlay	None	900

Criteria: The classification of accounts for Michigan local units of government (townships) has been developed under authority of Public Act 2 of 1968, as amended, by the Local Audit and Finance Division of the Michigan Department of Treasury.

The primary objective of this classification of accounts is to provide a means for the accumulation of financial information that will be uniform for all local units. Secondly, the accounts are provided to facilitate the preparation of prescribed reports. Thirdly, the chart follows generally accepted accounting principles and Michigan law.

The classification provides a systematic arrangement of accounts to be used in recording financial transactions of local units. A strict adherence to this classification of accounts will assure responsible local officials and the general public that similar transactions are recorded in the same manner, not only within a particular local unit, but also among all local units.

Detailed guidance for establishing a chart consistent with these requirements including requirements for mandatory accounts and provisions for optional accounts is presented in the "Uniform Accounting Procedures Manual" issued by the Michigan Department of Treasury, February 2001.

Recommendation: We recommend that the township make the fund and activity number changes as indicated above to comply with the Uniform Chart of Accounts.

Township Board--Liquor Law Enforcement Records

Condition: Howard Township receives state money to help enforce liquor laws. The township contracts its police services to the Cass County Sheriff's Department, but bills were not itemized to determine the amount paid for liquor inspections.

HOWARD TOWNSHIP--CASS COUNTY
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: Liquor Law Enforcement revenue must, by law, be kept in a separate fund that is designated for liquor law enforcement. At the same time, records must be maintained detailing how this revenue is used to enforce the laws.

Recommendation: We recommend that the township set up the Liquor Law Enforcement Fund and record the related revenues and expenditures in that fund. We also recommend that the township obtain an itemized bill from the Cass County Sheriff's Department for liquor law enforcement activities prior to payment of said bill.

Township Board--Investment Policy

Condition: As of March 31, 2004, the township board has not adopted an investment policy.

Criteria: According to Public Act 196 of 1997, a formal investment policy is to be adopted by the board no later than September 1998.

Recommendation: We recommend that an investment policy be established in accordance with Public Act 196 of 1997.

Township Board--Electronic Transactions of Public Funds

Condition: Howard Township electronically transfers funds for payroll withholdings without legal authority.

Definitions: ACH-automated clearing house; ETO-electronic transactions officer.

Criteria: According to MCL 124.303, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Recommendation: We direct the township board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Volunteer Fire Department

Condition: The township is paying \$700 monthly for fire fighting services. There are no contracts for these services and the township does not receive documentation to support the disbursements.

Criteria: According to Attorney General Opinion No. 5212 dated August 17, 1977, a city or village (we interpret this to apply to other types of municipalities including townships) may not appropriate funds to a private, nonprofit corporation, even if the private, nonprofit corporation is performing a public purpose. A city or village may enter into a contract with a private, nonprofit corporation pursuant to which the private, nonprofit corporation performs services on behalf of the city or village. Such a contract would provide control over the manner in which its funds are spent and provide assurance that the funds are being used for a public purpose.

Proper controls would dictate support for all disbursements made by the township.

Recommendation: The township has essentially two options in relation to its fire fighting activities.

1. If the organization is separate from the township and wishes to remain so, the township is directed to enter into a contract with the fire fighting organization for its services. Use of township property including equipment, building and grounds should be detailed in the contract along with amounts to be paid for services. The township should seek legal counsel when drawing up such a contract.
2. If the fire fighting activities are not performed by a separate organization, all money in all bank accounts in the name of the fire fighters should be controlled solely by the township treasurer. All banking activities including reconciliations, disbursing, and deposits should be performed by township personnel from the clerk's (for disbursements) and the treasurer's offices. All disbursements made for fire fighting activities should only be made when proper support is produced. Uniform monthly amounts for payment of services should be discontinued and disbursements should only be made when actual expenses are incurred. All expenses (including payroll even if only voluntary personnel) of the fire department must be paid by the local unit; all fees collected by fire department personnel must be deposited with the local unit treasurer.

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Local unit property may only be used for official township business. Use of local unit property at fire department fund raisers and local unit functions (parades) is allowable if the governing body approves such use. Use of local unit property (fire fighting equipment) for functions not related to the local unit is prohibited. Use of fire fighting equipment for attendance at such functions as 1) schools (prom night, crash disaster, fire prevention week, senior day, health fair, etc.); and 2) attendance at city functions (parades, traffic control, etc.) should be addressed in a policy adopted by the governing body. Use of the local unit conference rooms or gathering rooms in the fire department for such things as 1) training; 2) monthly meetings of the fire fighters association and 3) social gatherings should be addressed in a policy adopted by the governing body.

If the township decides that the fire fighting activities should be done by an external, fire association, a properly organized association may obtain a tax ID number and open bank accounts in their own name. "Properly organized" means incorporated under the laws of Michigan. The purpose of the organization must be clearly stated and there must be a clear distinction between the local unit fire department and the firefighters association.